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ACTIVITIES OF THE UNITED NATIONS CENTRE ON TRANSNATIONAL CORPORATIONS AND ITS JOINT UNITS

Report of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting on its tenth session

SUMMARY

During its tenth session (5-13 March 1992), the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting fulfilled its primary objective: to serve as a global forum for the discussion of issues in international accounting. It reviewed progress in harmonizing national accounting standards, and it decided that it should analyse the adequacy of accounting and auditing standards for financial institutions both at the national and international levels. It also decided to keep under review the direction of change in Central and Eastern Europe, the comparability of their new standards and further improvements which might be necessary.

The Group considered its third report on environmental disclosures, entitled "Environmental disclosures: international survey of corporate reporting practices". According to the survey, the vast majority of the transnational corporations studied - 191 out of 222 - reported at least some information regarding their impact on the environment. Although much of that information was qualitative, descriptive and inconsistent across industries,

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it demonstrated an awareness of environmental issues. The Group expressed appreciation to the former Centre on Transnational Corporations for its work in this field, and one observer said that in his 10 years with the Group he had had more requests for its environmental reports than for any other report. The Group decided to transmit its conclusions on environmental reporting to the Secretary-General of the United Nations Conference on Environment and Development.

The Group also took up seven country case-studies and a summary report on accounting problems arising during privatization. The aim of the discussion was to identify the most difficult accounting problems and discuss how they could be resolved. A distinction was made between privatization in countries that had established market economies with related legal and financial infrastructure and privatization in countries that were in transition to a market economy. The final output of the project will be a publication.

Lastly, the Group discussed accounting training and education in Africa and Central and Eastern Europe. A number of experts agreed that it was important to maintain the initiative which had been started at the first International Conference on Accountancy Development in Africa (14-17 October 1991, Dakar, Senegal) and to finalize some of the 14 project proposals presented at the Conference. The Executive Director of the International Federation of Accountants announced a new initiative which might give value to African accounting diplomas. The Group reviewed the numerous programmes to train accountants in countries in transition. Experts from those countries expressed their dissatisfaction with their size, slowness and lack of relevance (in some instances) and the lack of coordination among donors. The Group decided on its agenda for the 11th session, which would be devoted to education and the strengthening of the profession.

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I. MATTERS CALLING FOR ACTION BY THE COMMISSION ON TRANSNATIONAL CORPORATIONS

1. The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting recommends to the Commission on Transnational Corporations the adoption of the following draft decision:

DRAFT DECISION

Report of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting on its tenth session and provisional agenda and documentation for the eleventh and twelfth sessions of the Group

The Commission on Transnational Corporations decides:

(a) To approve the report of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting on its tenth session;

(b) To approve the provisional agenda and documentation for the eleventh and twelfth sessions of the Group, as set out below.

PROVISIONAL AGENDA AND DOCUMENTATION FOR THE ELEVENTH AND TWELFTH SESSIONS OF THE INTERGOVERNMENTAL WORKING GROUP OF EXPERTS ON INTERNATIONAL STANDARDS OF ACCOUNTING AND REPORTING

Eleventh session

1. Election of officers.

2. Adoption of the agenda and other organizational matters.

3. Accounting education and the strengthening of the profession, including:

   (a) Comparative study on curriculums for accountants and auditors in Africa, Asia, Europe, Latin America and North America; including pre-qualification and continuing education programmes in public and private institutions; examination and certification programmes;

   (b) Review of training programmes in Africa and Central and Eastern Europe;

(c) Reports by international and regional organizations;

(d) Relation between the status of auditors and the level of their education (vis-à-vis other professions).

Documentation

Reports of the Secretary-General and international and regional organizations

4. Provisional agenda for the twelfth session of the Group.

5. Adoption of the report of the Group on its eleventh session.

Twelfth session

1. Election of officers.

2. Adoption of the agenda and other organizational matters.

3. Review of important current developments at the global and national levels in the field of accounting and reporting by transnational corporations.

Documentation

Reports of the Secretary-General

4. Issues identified at the tenth session for discussion:

(a) Review of current accounting and reporting problems arising during privatization and their solutions;

(b) Environmental disclosures: international survey of corporate reporting practices;

(c) Accounting for financial institutions;

(d) Accounting for government grants;

(e) Accounting for leases;

(f) Accounting for business combinations;

(g) Accounting for concessions.

Documentation

Reports of the Secretary-General

5. Identification of issues of accounting and reporting for discussion on a priority basis during future sessions.

Documentation

Reports of the Secretary-General

6. Provisional agenda for the thirteenth and fourteenth sessions of the Group.

7. Adoption of the report of the Group on its twelfth session.

II. PROGRAMME OF WORK OF THE INTERGOVERNMENTAL WORKING GROUP OF EXPERTS ON INTERNATIONAL STANDARDS OF ACCOUNTING AND REPORTING

A. Review of important current developments at the global and national levels in the field of accounting and reporting by transnational corporations

2. At its 1st and 2nd meetings, on 5 March 1992, the Group discussed the report of the Secretary-General on important current developments at the global level in the field of accounting and reporting by transnational corporations (E/C.10/AC.3/1992/2). It found that the report was comprehensive in scope and contained useful information. Regarding the continuing negotiations on the General Agreement on Trade in Services (GATS), several experts said that it would be desirable, given the governmental nature of the Group and the fact that it was an expert group on accounting, for it to formulate its views on the content of the protocol on professional services.

3. In the context of some recent failures of transnational corporations - in particular, banks - there were two areas of concern: the deficiencies in information disclosure regarding bank structure and related party transactions; and responsibilities, appointment and rotation of auditors. There was support for the proposal that the Transnational Corporations and Management Division (formerly, the United Nations Centre on Transnational Corporations) conduct a review of the adequacy of accounting and auditing standards for financial institutions. A discussion by the Group and the formulation of conclusions might contribute to improving public confidence in those institutions.

4. The Group was informed that the standard-setting bodies in the countries of the proposed North American free trade agreement were contemplating a joint study to identify the differences in the accounting standards and practices of the three countries and the extent to which those differences could be eliminated. In South America, Argentina, Brazil, Paraguay and Uruguay had formed a common market, MERCOSUL, and preliminary steps had been taken to harmonize accounting standards there.

5. It was mentioned that the existence of the Preferential Trade Area in Eastern and Central Africa had highlighted the need to harmonize accounting standards. The Eastern, Central and Southern Africa Federation of Accountants (ECSAFA), a regional accounting association, was turning its attention to that matter. The association could benefit greatly from increased links with the Group, and it would be useful to see what links could be established. The experts from Brazil, Jordan, Morocco and Thailand also mentioned their regional associations - namely, the Interamerican Accounting Association (IAA), the Arab Society of Certified Accountants (ASCA), the Maghreb Accounting Committee, the ASEAN Federation of Accountants, and the South Asia Federation of Accountants. They described their activities, particularly in the area of harmonization of accounting standards. For example, ASCA was planning a joint conference with the Division in November 1992 to discuss standard-setting in the Arab world. The Group was further informed that during the recent annual conference of IAA, the chairperson of the Group at its ninth session had discussed the possibility of having IAA participate in the Group's sessions.

6. The expert from Switzerland expressed the opinion that the report would have been improved by including the reason transnational corporations in his country were using international accounting standards. Since the national accounting rules, although comprehensive and fairly strict, were confined to the essentials of the various problems, there was room for the companies to conform their reports to the requirements of other standards - e.g., international accounting standards. Therefore, it was important to note that in liberal accounting environments - i.e., systems with comprehensive but not highly technical and extensive accounting rules - a system leaving certain options to the enterprises, could favour the development and use of international accounting standards.

7. A number of countries in transition said that the report contained a wealth of information and that it allowed authorities in their countries to more easily follow developments in the field of international accounting. The section of the report on Central and Eastern Europe was highly instructive. The expert from the Russian Federation informed the Group that his country had adopted a revised chart of accounts in December 1991 which took into consideration some international accounting standards. That work had relied on an international task force organized by the former Centre and the former Ministry of Finance. One expert called for a more detailed and technical analysis of the actual changes in Central and Eastern Europe in the 1994 global review. It would be useful to know about the direction of change in those countries. In that regard, one expert said that it would be helpful to analyse the comparability of the new standards and what remained to be done. Another expert expressed reservations in that connection and stated that such reviews of national developments should not be critical. There was general agreement in the Group that reviews should be factual and constructive. An expert from a developing country said that if the Group noted that an accounting system did not facilitate the development of a country, its constructive criticism could support efforts for improvement.

8. The observer for the Fédération internationale des experts-comptables francophones (FIDEF) said that wider participation of developing countries in international standard-setting was needed since it was in their interest to solve accounting problems in an international context that respected their sovereignty. In that regard, the United Nations had no boundaries or restrictions on membership. Progress was occurring in francophone countries, and their views should be taken into account by international organizations. Furthermore, those countries were of the opinion that the review of developments in other countries was useful.

9. Regarding the discussion of recent developments in accounting for intangible assets, a number of experts suggested modifications to make the text more precise. In particular, it would be helpful to distinguish between the accounting treatment for goodwill arising from business combinations and that for other types of intangible assets. It was agreed that the text would be amended.

10. At its 2nd and 3rd meetings, on 5 and 6 March 1992, the Group discussed the report of the Secretary-General on important current developments at the national level in the field of accounting and reporting by transnational corporations (E/C.10/AC.3/1992/4). The representative of the Division informed the Group that replies to the questionnaire had been received from 48 countries. A number of experts commented on the non-homogeneity of their replies. They suggested that certain guidance be given to those completing the questionnaires. In particular, it might be useful to specify to the Governments which agency or body should fill in the questionnaire.

11. The expert from China announced that, at the end of 1991, the Ministry of Finance had issued for comment its first accounting standard, which contained general accounting principles or a conceptual framework. Additional standards would be issued to address specific issues. That represented a departure from the traditional method of setting accounting regulations, where standards were formulated for different industrial sectors and different forms of ownership. In the future, all enterprises would use uniform accounting policies. However, each industrial sector might design its own detailed accounting system as long as it was consistent with the uniform accounting standards.

12. The expert from Mexico explained that progress had been made in establishing regulations for the valuation of long-term investments in securities, for the recognition and valuation of rents, for the recording of labour costs and for accounting for enterprises controlled by financial institutions. She also noted that as part of the North American free trade agreement, technical working groups had been created for each country to study the similarities and dissimilarities in accounting requlations used by each. In that sense, Mexico used accounting principles that coincided with those of both the United Nations and the International Accounting Standards Committee.

13. Since the reply of his country had not been included in the report, the expert from Morocco explained that 1991 had been marked by three major events: two draft laws on accounting and auditing, which were based on the

European Community (EC) directives, and the fact that the National Council of Accounting had begun its work. In addition, the Government had selected those entitled to conduct audits of the enterprises to be privatized.

14. The expert from Chile said that his country had developed substantial expertise in accounting for inflation. He added that several years ago, a system of monetary restatement (or monetary correction) had been introduced. The accounting profession and the regulators of his country were currently dealing with the accounting treatment of the differences that might result from updating liabilities for exchange-rate fluctuations as compared to restating fixed assets with domestic inflation rates. He suggested that, since the Group was concerned with harmonization, the issue of inflation could not be ignored even if it was low. In the long term, the cumulative effects of inflation would distort the financial statements. Therefore, the Group should consider more research in that area.

15. The expert from Bulgaria also mentioned the need for guidance in accounting for inflation and in accounting for joint ventures. He announced that an Institute of Accountants had been established, a national commission had been set up to examine candidates for the profession and 54 persons had been given the title of "chartered accountant" or "certified public accountant". In Bulgaria, the control of the activities of auditors was very important because joint stock companies and banks must be audited annually.

16. The expert from the United Kingdom of Great Britain and Northern Ireland informed the Group that the Accounting Standards Board had created an Urgent Issues Task Force. So far, it had dealt with the treatment of goodwill from the resale of businesses, allocating the financing cost of deep discount bonds, and disclosure in the profit and loss account of restructuring and reorganization costs. The expert from Gabon stated that a National Accounting Council had been established in 1992. Regarding the Group's work on the environment, he had transmitted the report to the Minister of Environment.

17. The Secretary-General of the International Accounting Standards Committee (IASC) explained the role of that organization, which was founded in 1973, with the objective of facilitating the harmonization of accounting requirements for business enterprises. It sought to achieve that objective through the development and publication of international accounting standards. IASC had 105 member organizations and a Board comprising representatives from 12 countries drawn from the national accounting bodies and a consultative group which broadly represented users and preparers of financial statements. To date, 31 standards have been issued.

18. He described progress on its comparability project (ED 32), which aimed to reduce the options in its current standards. IASC had issued exposure drafts to revise its standards on research and development costs, inventories and the capitalization of borrowing costs. The Board had approved for issue exposure drafts on revenue recognition, construction contracts, foreign exchange rates, business combinations and property, plant and equipment, which contained a limited reference to environmental expenditure. The Board

intended to approve standards on cash flow statements in 1992 and on financial instruments in 1993. The Board's priorities included the revision of the existing standards on taxes and segmented information and the development of a standard on intangible assets. Lastly, the Secretary-General reported on the IASC project on financial reporting needed in developing and newly industrialized countries. That project was delayed, but IASC intended to send a questionnaire to appropriate bodies and to publish a report based on their responses. The questionnaire would help determine what IASC could do and how the comparability project would affect those countries. IASC realized that one of the main needs of those countries was education and training, and it was not an expert in that field. Therefore, it would support the efforts of the International Federation of Accountants (IFAC) and the Intergovernmental Working Group in that area.

19. In response to his statement, a number of experts asked about the IASC relationship with the International Organization of Securities Commissions (IOSCO). The Secretary-General replied that IOSCO sought the development of a set of mutually accepted standards for securities listings and that IASC hoped to provide those standards in the accounting field. He expected that a final decision on that matter would be taken in 1993. It was asked whether IASC intended to develop two sets of standards, one for listed companies and another for non-listed companies. The Secretary-General replied that the intention was to develop one set of common standards but, as always, some issues might be limited to particular types of enterprises. On the question of the Steering Committee on the Financial Needs of Developing Countries and Newly Industrialized Countries, an observer, in his capacity as Chairman of that Committee, expressed his dismay at the delay in its work, which resulted from three sources: (a) the lack of agreement between the Board and the Committee on its mandate, (b) the difficulty in agreeing on the real reasons for the lack of participation of developing countries in standard-setting and (c) the other priorities of IASC. He stated that he was not satisfied with the situation and that the Committee should either meet or be dissolved. In reply, the Secretary-General apologized for the delay and said the project should have had the priority it deserved.

20. Although in formal terms the scope of IASC was not to enforce accounting standards, its cooperation with IOSCO and its assistance to developing countries and to countries in transition might put IASC in a de facto mandatory position. In view of that development, several experts asked whether it was acceptable for a private sector organization to play such an important role without having a political mandate. It was noted that IASC, together with IFAC, influenced most efforts for harmonization in that area and, therefore, both should be commended for their activities. But to avoid any misunderstanding in the report, it should be made clear that IASC and IFAC were private-sector organizations that did not have the mandate to make their standards mandatory.

21. Some experts drew attention to the fact that the present action of IASC to exclude options was moving that body in the direction of putting more emphasis on investors rather than the protection of creditors. That could easily lead to overemphasizing the short term and to overlooking long-term problems. Consequently, the elimination of options could be harmful for the economy of a country. As concerns, for example, Germany, it would then be forced to give up its concept of accounting and its interpretation of the prudence principle. So far, such options were permitted by the European Community, the Organisation for Economic Cooperation and Development (OECD) and the United Nations.

22. Other experts raised the possibility of a conflict of interest between the professional aims of the people effectively involved in IASC and IFAC operations and the public interest. About 75 per cent of the audits of listed companies were done by the "big six" accounting firms. Several experts, however, noted that IASC was not exclusively composed of members of audit firms, that it looked to the interests of all countries and that both developed and developing countries used international accounting standards as models or appropriate benchmarks. Some experts expressed the opinion that the task of standard-setting should not be left entirely to private-sector organizations of the auditing profession. In particular, where two or more technical methods were possible, the elimination of options must be decided by Governments or intergovernmental organizations under political control. In concluding the discussion, it was proposed that the Group should determine the extent to which the Group could endorse international standards without harming various national interests.

23. The expert from the Russian Federation said that, although her country had recently revised its chart of accounts to comply with some international standards, it would require a great deal of work to implement it. She wondered whether the new financial statements that would be produced using accrual accounting would really reflect a true and fair view of the enterprise's situation. At the current time, enterprises had to have the assurance that they could ultimately collect their accounts receivable, which might be difficult because of the severing of previous business relationships and the lack of experience of operating in a market economy. Those factors were dramatically increasing late payments or non-payments so that up to 80 per cent of the accounts might be in default. The problem of bad debts could be solved by making provisions for such debts based on the matching principles which had not yet been incorporated into the new chart of accounts. In addition, she wondered whether the tax authorities would accept such a practice. She concluded by saying that in applying international standards to countries in transition, the particular circumstances of the countries should be considered so as to avoid misinterpreting financial statements.

24. The expert from Turkey informed the Group that in January 1989 the Capital Market Board had issued comprehensive accounting regulations for listed companies that were in harmony with international accounting standards and EC directives. It had been accepted that where the regulations did not

provide guidance on accounting treatments, industry practice or international accounting standards were to be followed. The Board also issued auditing standards for the auditor's work. A regulation for consolidated financial statements was expected to be issued during 1992. There was still need to have national accounting standards for all companies, whether they were listed or unlisted. To provide for widespread participation in standard-setting the Turkish Accounting and Auditing Standards Commission was being created by an amendment to the capital market law.

25. The expert from Brazil announced that permission had been granted to listed companies to publish only financial statements fully adjusted for inflation, as required by the Brazilian Securities and Exchange Commission. Progress had been made in setting out guidelines to include the inventories of industrial and commercial enterprises as "non-monetary assets" for the purposes of compulsory indexation in 1993. It was also required to discount accounts receivable and payable to their present value at the 1991 balance sheet date. In highly inflation economies, the lack of present value discounting might seriously distort financial statements. Balance sheet consolidation requirements would soon be changed. The requirement to exclude individual subsidiaries from consolidation on the grounds of activities different from those of the current company would be eliminated. Finally, there was an attempt to reduce the importance of individual company statements for public information purposes, and special attention was being paid to consolidated financial statements.

26. The expert from Czechoslovakia stated that, in the case of accrual accounting, there appeared to be a conflict between financial accounting requirements and tax law in his country. Tax law did not allow provisions for bad debts. If a large percentage of accounts receivable were not collectible, there was a danger that enterprises would have to pay taxes on such uncollectible revenues. Fortunately, the tax authorities had worked out that problem with the enterprises and did not collect taxes on that basis. In 1993, it would be possible to make provisions for bad debts. The expert from Poland stated that it was impossible to adopt international standards overnight. It must be done gradually since those standards were developed for stable economic and legal environments. The expert from Bulgaria agreed that the changes in the accounting system would take five or six years and new accounting legislation should give greater freedom to enterprises in their development of accounting systems. There was a problem in tax accounting in that it changed the accounting system results.

27. One expert from a developed country suggested that if there were difficulties or restrictions in applying international standards, then one solution would be to disclose the additional information in the notes to the financial statements. In referring to the issue of bad debts, the expert from Germany noted that the problem had not arisen in former planned economies, since accounts receivable were always paid for by the Government or other State organizations. If those receivables were recognized, they should be written down. He agreed that, if such doubtful accounts receivable were considered as assets without any value adjustment, then those financial

statements would not be very meaningful. In Hungary, outstanding debts were evaluated at the end of the year, and there was a possibility of creating a provision that could be deducted from profits before taxes. However, current tax law did not allow all provisions to be deducted in one year.

28. The representative of the European Community described recent activities of the European Accounting Advisory Forum, which was composed of representatives of national accounting standard-setting bodies and of other bodies that represented users and preparers. The main objective of the Forum was to find technical solutions for problems that had not yet been dealt with in the EC accounting directives in order to increase comparability. Current topics being discussed by the Forum included foreign currency translation, government grants and leasing. The subject of foreign currency translation was difficult owing to the link between financial accounting and taxation. While the problems might not be solved on the level of the individual accounts, they might be resolved on the level of the consolidated accounts, where there was no conflict between accounting rules and tax law, since taxes were based on the individual accounts. Regarding leasing, there were basically two approaches to the treatment of a lease where the lessee assumes the economic risks of the contract, and the Forum was trying to bring about comparability between those two approaches. The documents would be made available soon.

29. One expert asked what the European Community was doing on environmental accounting. The representative replied that the Commission of EC had published its Fifth Action Programme on the Environment, entitled Towards Sustainability, which contained a list of measures in the area of environmental action. It was considered necessary to include in the Programme some initiatives in the area of financial disclosure, but there were no concrete proposals yet. It was doubtful whether proposals would be produced before the end of 1992.

30. He also elaborated on the Council Directive of 13 December 1991 on the annual accounts and consolidated accounts of insurance undertakings, which must be implemented by member States before 1 January 1994. That Directive would allow insurance companies to state their investments at the higher market value and to include the unrealized gains into the profit and loss account, provided that the historical cost amounts were shown in the rates. Replying to questions from other experts, he explained that, in most member States of EC, there was a linkage between the accounts prepared for commercial purposes and the accounts prepared for tax purposes and that, at the moment, there were only a few conflicts between the EC accounting directives and the international accounting standards. Should there be a conflict, companies must comply with their national law based upon the EC directive.

31. At its 3rd and 4th meetings, on 6 March 1992, the Group considered the report of the Secretary-General entitled "Environmental disclosures: international survey of corporate reporting practices" (E/C.10/AC.3/1992/3). In introducing the report, the representative of the Division noted that a vast majority of the transnational corporations studied - 191 out of 222 - had

reported at least some information regarding their environmental impact. Although much of that information was qualitative, descriptive and inconsistent across industries, it did demonstrate an awareness of environmental issues. It was obvious that there were leaders and laggers in the field; some companies were reporting useful information while others were reluctant to do so. One of the main problems highlighted by the survey was that environmental performance was not related to expenditures or to environmental targets.

32. The observer for the International Confederation of Free Trade Unions (ICFTU) found the survey quite useful, particularly because concrete examples of corporate practice were cited in the report. She assumed that the survey was based on parent company reports and suggested that in the next survey individual company reports also be examined since they were likely to disclose more relevant information on emissions. Another expert said that it would be desirable to know how the disclosure system operated between parent and subsidiary.

33. The Group found the report well prepared, allowing valid conclusions to be drawn. It showed that, despite growing awareness, progress was slow, and the Group must find a way to finalize its conclusions. The dissemination of the Group's conclusions might improve disclosure. Another expert stated that the report would be extremely useful to her Government by showing the scope of the problems.

34. One observer expressed appreciation to the former Centre for its work in that field. He said that in his 10 years with the Group he had more requests for its environmental reports than for any other report. The issues were complex and needed continuous monitoring. Therefore, he considered that it would be more useful for the Group to continue to monitor developments than to issue recommendations at the current time. In future surveys, it might be desirable to have a higher number of transnational corporations per country. Another expert requested that more transnational corporations from developing countries be included.

35. One expert spoke about accounting for the environment at the micro- and macroeconomic levels. He outlined the tasks of the accountant, including the identification of an activity, its measurement and its communication or disclosure. Within the context of sustainable development, it was necessary to include the full cost of producing a product, which would include all the unrecorded environmental costs. Another expert said he had difficulty with that because accounting was at the end of the line. If the Government did not put a price on environmental resources, how could accountants put them on the books? He referred to paragraph 35 of the report (E/C.10/AC.3/1992/3), in which an enterprise described the difficulties it had in quantifying its contingent liabilities. The expert was of the opinion that if the enterprise did manage to quantify its liabilities and declared them, it would not survive. Legal problems were the main reason why there was not more disclosure, but there were also measurement problems. He stated that, in the future, the Group should consider the appropriateness of special-purpose

reports for disclosing environmental information. It was possible that measurement problems would disappear if the Group stopped trying to integrate environmental issues into financial accounting. The expert from Germany added that it was not possible to solve environmental problems only with new accounting rules. For example, owing to the prudence principle, environmental liabilities had to be recognized in the opening balance sheets of enterprises in the former German Democratic Republic. Those contingent liabilities were in some cases very important. In the end, the Government might be forced to assume directly some of the contingent liabilities. Therefore, one could see the problem better with disclosure, but that did not solve it.

36. Several experts from developing countries did not agree with the suggestion that the Group restrict itself to a monitoring role. The issuing of recommendations would be helpful to developing countries that did not have the expertise to formulate such recommendations. The major players were not doing very much; Governments did not have the resources to deal with the issue; standard-setting bodies were not addressing it; and industry was not keen to pursue it. Therefore, the catalytic role of the Group was especially important. Another expert from a developing country stated that, while he recognized that accounting was not a policy-making instrument, recommendations by the Group would go a long way towards giving the necessary guidance to improve disclosure. Another expert stated that requiring such disclosures would have more impact on the behaviour of enterprises than environmental legislation itself. He referred to the fact that the publication of toxic emissions data had a more powerful effect on reducing pollution than 20 years of regulation, and so, disclosure was, in the opinion of one national regulator, one of the most important tools we have to reduce toxic emissions.

37. One expert clarified the distinction between environmental accounting, auditing and reporting:

(a) Environmental accounting: a new basis and system of recognition and measurement of costs, including externalities;

(b) Environmental auditing: enterprise techniques for environmental management;

(c) Environmental reporting: disclosure of environmental activities.

He was of the opinion that the Group's conclusions were adequate in terms of environmental reporting and that such reporting should be encouraged, but not required. Furthermore, the manner of reporting was best left to the enterprise since it had to be determined in the light of its circumstances.

38. In concluding the discussion, a number of experts suggested that the Group transmit its conclusions (on environmental reporting) for consideration by Governments and other interested parties to the Secretary-General of the United Nations Conference on Environment and Development, as set out in annex II. It was also recommended that when the Group's booklet, entitled "Conclusions on accounting and reporting for transnational corporations" was revised, environmental reporting be included.

39. Two experts outlined the future work that should be undertaken by the Group and discussed at its future meetings:

(a) A survey of corporate practices, using the conclusions as a reference point; including more enterprises per country; including individual accounts; comparing group with individual reports;

(b) A special report of best practices.

40. The expert from Sweden also recommended that the review include the development of environmental accounting standards, in-depth interviews with enterprises to determine the relevance, possibility and difficulty in following the conclusions of the Group and the accounts of subsidiaries in developing countries.

B. Discussion of accounting issues arising during privatization, including individual country case-studies

41. At its 5th, 6th, 7th, 8th and 9th meetings, on 9, 10 and 11 March 1992, the Group had before it seven country case-studies on accounting, and reporting problems arising during privatization (E/C.10/AC.3/1992/5/Add.1-7) and the report of the Secretary-General containing a summary of those accounting and reporting problems (E/C.10/AC.3/1992/5). Each country report contained a description of the Government's objectives for privatization, a discussion of the privatization methods, a description of how the privatization methods were implemented, and a review of the accounting problems that arose during the privatization programme. A distinction was made between privatization in countries that had established market economies with related legal infrastructures and financial institutions and countries that were in transition to a market economy. In general the experts were pleased with the quality of the reports, and minor amendments, proposed by the national experts, were incorporated into the reports.

42. The expert from the United Kingdom commented that the power generation and distribution industries in his country had also been privatized. The privatization programme was incomplete and would continue with the privatization of the coal industry and railways. Several experts inquired about the difficulty of using current cost information to establish the fair value of the enterprises privatized. The expert from the United Kingdom replied that while the current cost accounting information was useful, it did not represent the equivalent of a valuation performed by an independent appraiser for the purpose of establishing a purchase price. Another question related to the low selling price of some share offers. The expert from the United Kingdom explained that since objectives were to promote private ownership of shares and encourage participation, shares were issued on attractive terms. Incentives included payments by instalments, the issue of vouchers for consumption of services, and participation in future bonus issues.

43. Another expert asked how share offerings of an enterprise were priced after the initial offering - at the book value of the shares, the stock exchange market value, or the economic value (that is, the present value of future cash flows from the operations of the enterprise). There was concern that the original value of the shares owned by the shareholders might be diluted. The expert from the United Kingdom replied that, subsequent to issue, shares were quoted at market values and shareholders were entitled to purchase a proportional interest in future offerings so that their interest in an enterprise was not diluted. Those rights were also traded on the stock exchanges.

44. Another expert inquired whether privatization of an enterprise that had a monopoly in a given country affected the cost of goods and services sold by the enterprise. The United Kingdom expert stated that special regulatory bodies were established (i.e., Office of Telecommunications) to ensure that the prices charged for goods and services were fair and reasonable. The expert from Sweden informed the Group that an overriding principle of the recent privatization programme there was that companies worked in a competitive market before they were sold. The Government did not want to switch from a state monopoly to a private monopoly. He asked for additional information on that aspect, particularly in the case of British Telecom.

45. The expert from France informed the Group that the privatization programme there, which had actually begun in 1973, with employees of some financial enterprises being given free shares, was still incomplete. He mentioned two important problems: the determination of the value of the enterprise, and the nature and scope of the audit. On the question of valuation, he noted that the going-concern value of a total enterprise was usually greater than the value of the net assets. Normally, a range of financial values was attributed to an enterprise by investment advisors and appraisers. That range was useful in assisting the Government minister to determine an appropriate global valuation and an issue price. He noted that the global value of the enterprise usually exceeded the aggregate value of its individual shares because each shareholder had limited control and power. He mentioned that different methods were used in selling shares. For example, large blocks of shares were sold to institutional purchasers, who paid higher prices and agreed to retain them for specified periods.

46. The second issue raised related to the function of auditors, who had a very important role in the process, because the Government required the preparation of consolidated financial statements in accordance with international standards for each enterprise being privatized. Those financial statements were required to be audited.

47. One expert asked whether selling prices for enterprises had ever been regarded as too low. The expert from France replied that that had occurred, but that the Government's intention was to promote a broad ownership of shares and that the objective had been attained. Two other experts questioned the reasons for the Government's setting aside the proceeds from the privatizations in separate budgetary accounts. The representative from France

stated that that was done to provide funds for future investments in the French economy. In replying to another question the French expert pointed out that in some instances the Government retained control of the privatized enterprises.

48. The expert from Mexico presented the important aspects of the privatization programme in her country, which had been motivated by the financial crisis of 1982. At that time, there were 1,550 State-owned enterprises, compared to 200 in 1992. Most of the remaining State enterprises were in priority sectors of the economy, where private ownership was prohibited by the Constitution.

49. Although some difficulties had been met, important experiences had been gained. First, it was found that it was better to privatize small enterprises before large ones in order to minimize the impact of mistakes and to develop experience in the privatization process. The expert emphasized the importance of having a legal framework to provide complete transparency for the process, centralized control of the privatization programme and, where necessary, the restructuring of enterprises before sale. In Mexico, privatization sales were on a cash basis, because the transactions were regarded as irreversible, once concluded. The need for transparency in transactions and communication about the programme was important not only for the citizens of the country but also for the foreign investment community.

50. One expert inquired about the qualifications of commercial banks as agents for privatization transactions. The expert of Mexico replied that the banks were well qualified to perform appraisals. A question was raised about the difficulties of meeting the requirements of listing on the United States and European stock exchanges. The expert from Mexico responded that that was not a significant problem, because the enterprises involved followed international standards of accounting in the preparation of their financial statements.

51. The expert from Germany gave a short introduction to the case-study on his country and pointed out that, prior to unification, the main purpose of privatization in the (former) Federal Republic of Germany had been to reduce the Government's risk of having to provide future financial support to the enterprises privatized. After unification, the objective was to privatize State enterprises in order to transform the planned economy into a market economy with privately owned property.

52. He went on to state that a major problem was the valuation of the enterprises. He felt that the best indicator of the value of an enterprise was the discounted future income from its operations, but that was very difficult to estimate. Enterprises were being appraised on the basis of their "going concern" value in accordance with the Fourth European Community Directive.

53. The expert from ICFTU made a statement about the role of labour in the privatization process for the (former) German Democratic Republic. Trade unions were represented on the supervisory board of the Trust Agency

(Treuhandanstalt) and were involved in privatization strategy and in the sales process for the larger enterprises. Labour productivity in the German Democratic Republic was approximately one third that in the Federal Republic of Germany - the result of many factors, including the use of obsolescent machinery. When enterprises lost their markets in Central and Eastern Europe, they needed to develop new markets for their goods. Unfortunately, the quality of their products was not up to western standards. That meant that major investments in plant and equipment and management expertise would be required if the enterprises were to operate successfully in a market economy. She was of the opinion that restructuring must, in some cases, precede privatization.

54. The expert from the International Assets Valuation Standards Committee pointed out that the use of similar assets in other cities of the Federal Republic of Germany as a basis for valuing assets in the German Democratic Republic was risky because in every city the investment climate was different. Another expert inquired about what had been done with social assets such as the sports and recreational facilities that had been owned by enterprises in the German Democratic Republic. The expert from Germany replied that those assets were either privatized or were turned over to the employees or local authorities.

55. The expert from Hungary described the developments that had occurred since the report on his country had been prepared. The pace of privatization had increased rapidly towards the end of 1991. Approximately 85 per cent of the funds received for privatization transactions were in convertible currencies, which was the main source of foreign capital in that year. In privatization, the main emphasis had been on selling large companies to strategic investors. One important issue was the lack of availability of credit to entrepreneurs. That lack had deterred them from making investments. The Government was working to improve the situation. Interest rates were currently too high. Investment incentives and tax regulations needed to be brought into closer harmony with the new accounting rules. It had been found necessary to restructure enterprises prior to privatizing them. A clear management structure should be established in the enterprises so that they would accept responsibility for their success. With regard to accounting matters, financial statements for 1991 would still be prepared in accordance with the old law of accounting. The new law would become applicable in 1992. Consolidation would not be required before 1995. The new accounting methodology was significantly different from the old. The expert noted that the chart of accounts remained in effect but that it had been reduced to a broad outline, leaving the exact contents to the company.

56. The observer from Czechoslovakia made a presentation on privatization in his country. Small privatizations had been started in the previous year and a programme for large enterprises would begin in the current year. A current valuation of property in all enterprises was not practical because there were so many enterprises. However, those enterprises that were seeking foreign capital would be valued in accordance with international standards. The process should begin in two months. To date, 14,000 enterprises had been sold

at public auctions, for 17 billion koruny in the Czech Republic; 7,700 enterprises had been sold for 9.3 billion koruny in the Slovak Republic. There were very few small enterprises left to be privatized. Large enterprises must prepare privatization plans but outsiders might prepare competitive plans for the same enterprises. The Ministry of Privatization had received 5,700 proposals to date (2,573 basic plans and 3,128 competitive plans). About 4.5 million citizens of the country were expected to participate in the coupon privatization programme. At the current time, 8.5 million were registered in the programme. Citizens would buy shares with the coupons, for that was the quickest way to find new owners.

57. The observer from Poland commented on the excellence of the case-study of her country. After initial criticism, the Parliament had voted in favour of the mass privatization scheme, and the Minister of Privatization had been given approval to proceed with transforming State-owned enterprises into joint stock companies. At the time, there were approximately 23,000 enterprises in the private sector, 1,400 joint ventures with foreign investors, and 4,500 partially State-owned joint stock or limited liability companies. During 1991, six large enterprises were privatized through public offerings and their shares quoted on the Warsaw stock exchange, and 18 large firms were sold directly to foreign investors. The development of a transparent and efficient capital market was a key element in the institutional framework required for the success of privatization. The training of board members, managers and capital-market participants was also crucial to the implementation of the programme. The free distribution of coupons and the purchase of shares in privatized enterprises with those coupons would increase the private property owned by Polish citizens. Dividends on shares would add to household incomes, and therefore overall spending would increase.

58. After discussion of the seven case-studies, two experts offered information on privatization in their countries.

59. The expert from Brazil offered a brief presentation on the privatization programme currently in process there. The objectives of the programme were to achieve equilibrium in public finances, to eliminate ownership by the State in activities where it was not required, and to reduce inefficiencies. About 130 enterprises had been identified at the national level. A decision was reached to privatize the large enterprises first in order to build confidence in the programme. Initially, the programme had been opposed by certain minority groups, but currently there was popular support. The steel industry was the first one selected, and aircraft manufacturing and petrochemical industries would be next.

60. Economic and financial appraisals were being made for each enterprise to be privatized. Accounting for the effects of inflation was being performed according to ISAR conclusions. The enterprises were audited, and in addition, a special audit of the privatization process was being carried out to ensure transparency. Minimum guidelines for such work had been established by the Brazilian Institute of Accountants, in cooperation with the Federal Council of Accountants and the Brazilian Security Commission.

61. The expert from Chile pointed out that three programmes had been carried out to date in Chile. The most recent, between 1984 and 1986, was directed towards expanding the capital market in the country and increasing the number of citizens who owned shares in enterprises.

62. A special State agency was organized to carry out the programme. State-owned enterprises, primarily in the service sector, were organized as corporations, as a first step. The enterprises were then privatized, primarily by employee buyouts, public-share offerings, trade sales and debt-equity swaps. Pension funds, which had been privatized in 1981, were able to acquire a percentage of shares in order to allow them to maintain a well diversified portfolio. That had contributed to the economic growth and development of the Chilean securities market.

63. An expert expressed the view that one issue for developing countries was the extent to which interests in national enterprises should be sold to foreign investors. The expert from Chile agreed and stated that the Government was seeking foreign investment as part of the programme. Nevertheless, the Government maintained control over some strategic enterprises.

64. The Group next took up the summary report. The expert from India felt that guidance was needed in the following areas: (a) preparatory work required before privatization; (b) how valuations should be performed and what safeguards were necessary so that overvaluations and undervaluations did not occur; (c) post-audits of privatization transactions; and (d) post-evaluations of privatization transactions to determine whether the Government's objectives had been met.

65. The expert from Morocco noted that the case-studies were of countries with well established market economies and countries in transition to a market economy. The problems of other countries, particularly those in Africa, were quite different, because the Government was the only economic agent capable of operating productive enterprises after decolonization. The expert from India suggested that a case-study on the Indian experience would be useful to countries that were involved with privatization.

66. Another expert said that there should be a specialized body in each country to ensure that privatizations conformed with the long-range governmental objectives. That body should also classify the risks involved in order to maintain public confidence in the securities market. Future insolvencies could cause serious harm to investors. Another expert noted that the report could be improved by stressing that companies should be exposed to competitive markets and pressures before they are privatized.

C. Preparation for the 1993 session on education and training in developing countries and countries in transition

67. At its 9th and 10th meetings on 11 March 1992, the Group took up consideration of two reports on accountancy development (E/C.10/AC.3/1992/6 and 7). First, it discussed the results of the International Conference on Accountancy Development in Africa, held from 14 to 17 October 1991 in Dakar, Senegal, which was organized by the former United Nations Centre on Transnational Corporations and the Fédération internationale des experts-comptables francophones (FIDEF). The Conference was also supported by the International Labour Office, the World Bank and the International Federation of Accountants (IFAC).

68. The Conference was the first occasion at which so many representatives of the accounting profession - from both developed and developing countries, international organizations, Governments, and other interested parties - were gathered to discuss accountancy development in Africa. The purpose of the Conference was to discuss with interested parties the findings of the survey of accounting needs in Africa, to identify strategies to strengthen accountancy development in Africa, to formulate project proposals and to select projects which could meet the needs of the countries concerned. Fourteen projects were reviewed in three areas:

(a) Accounting standard-setting and research;

(b) Strengthening of the profession;

(c) Accounting education and training.

69. The observer from FIDEF stated that he could not recall another conference which had gathered together so many experts from so many places. Besides broad African representation, there was a large number of international agencies in attendance. Furthermore, the Conference had been an important launching point for a flood of activities. Fourteen projects had been discussed, and it would be a pity if no further action were taken on them. The spirit of the Conference must be maintained and the project proposals should be improved. Therefore, an advisory board should be set up to finalize the proposals and seek funding. A number of experts agreed that it was important to maintain the initiative and that the projects must be followed up on. The representative from the World Bank stated that all the proposals deserved a response, that they all had merit, but that they needed amplification in order to meet donors' requirements. He called for a task force to be mobilized.

70. The expert and Executive Director of the International Federation of Accountants reported that the Education Committee had met and decided to develop a project based on a recommendation made at the International Conference. The Committee felt that it might be able to improve the quality of African education by instituting a process whereby it reviewed the curriculums of African institutes and universities and then issued a statement

that the curriculums complied with its educational guidelines. Such a proposal would have to be approved by IFAC's Governing Council. He said that such an exercise would have to start slowly, so that it would be done correctly. Therefore, only a few African countries would initially be selected for the project.

71. The expert from the Netherlands expressed his concern that progress in the area was very slow, as again demonstrated by the failure of the Dakar conference to decide finally on the feasibility of any project. He suggested that in the course of further action, it would be preferable to concentrate on a limited number of projects rather than focusing on the most professional selection methods.

72. Regarding further work, the Group decided that an ad hoc working group should be created with members from developing countries, developed countries and international organizations. It would take the following actions:

(a) Further analyse and refine the project proposals in light of the findings of the Africa survey, the project assessments made in Dakar and the suggestions for additional ways and means of improving project design and assessment, as described in the report;

(b) Contact country representatives concerning additional questions that might arise and possible project restructuring and redesign;

(c) Organize programming missions. Once possible pilot projects have been identified and a preliminary selection made, missions would be undertaken by one international expert and one national expert. They would identify all appropriate participants, both national and international, and would draw up the final project design and a plan of action, including the responsibilities of all parties;

(d) Organize a consultative meeting (of the proposed ad hoc working group) to which all interested parties would be invited, in order to discuss and evaluate project proposals; "brainstorm" additional ways and means of improving product design and assessment, as described in the report; discuss and agree on a coherent strategy for the further development of national versus regional accounting projects; select pilot projects; and seek funding for them.

73. The Group next turned its attention to a review of accountancy education and training programmes in Central and Eastern Europe (E/C.10/AC.3/1992/7). Since there were no published sources of such information, it had to be gathered, organization by organization. The report was a first attempt to centralize and share information so that cooperation and coordination could be improved among international and other donor agencies. The earlier discussions on privatizations had highlighted the need for such training. Programmes that took into consideration local needs and the background and experience of the trainees, that were designed in conjunction with local experts, that incorporated recent national accounting reforms and that were

designed to be self-sustaining were more likely to produce an appropriately educated cadre of accountants, managers and educators and thus facilitate the transition to a market economy.

74. The experts from the countries in transition were invited to share their experiences. The expert from the Russian Federation said that current educational efforts in her country needed to be developed in order to create an adequate understanding of the new role of accountants in the market economy. Previously, accountants had been regarded mainly as State comptrollers. However, now they would have to be creative, to make choices and to take decisions on the enterprises. She reported that before the education programme sponsored by the former United Nations Centre on Transnational Corporations had been offered at Moscow State University, the best students were not attracted to accounting. However, the courses and the subsequent job opportunities had made accounting more attractive to them. She urged that there be greater coordination of such programmes among international donors so that the programmes could be speeded up.

75. The representative of the EC stated that the Community wanted countries to define their needs so that it could then decide upon appropriate action. It was important that the initiative come from the country itself. The EC tried to be objective, to include as many member States as possible and to put all projects out to tender.

76. The expert from Czechoslovakia expressed his appreciation for the courses which had been organized through the Ministry of Finance by donor countries. However, a number of other courses had been organized by private organizations, and it was very difficult for the foreign instructors to teach accountants in his country what they needed to know. Foreign instructors were not familiar with the Czechoslovak legal system or new accounting law. In some cases, the programmes seemed to help foreign accounting firms more than Czechoslovak accountants. He also noted that when accountants were retrained, they often left government or university service to work in private accounting firms. The Russian expert expressed the view that one had to compare the costs and benefits. It was impossible to avoid all the costs of such programmes, but they deserved great attention due to their long-term benefits. Furthermore, in some cases the costs or losses could be borne as long as the general level of accountants increased.

III. ADOPTION OF THE REPORT OF THE GROUP ON ITS TENTH SESSION

77. At its 11th meeting, on 13 March 1992, the Group adopted the draft report on its tenth session (E/C.10/AC.3/1992/L.3 and Add.1-5), as revised and amended during the discussion.

IV. ORGANIZATION OF THE SESSION

A. Opening and duration of the session

78. The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting held its tenth session at United Nations Headquarters from 5 to 13 March 1992. The Group held 11 meetings (1st to 11th meeting).

79. The session was opened by the Chairman of the ninth session, Ms. Martha Aguirre (Mexico). The Chairman welcomed the new member States and observers and reviewed the results of the ninth session. She stressed the fact that the Group of Experts was a working group, in which all members had to contribute if the Group were to have an impact on corporate accounting and reporting.

80. At the 1st meeting, on 5 March, the Special Legal Advisor of the Department of Economic and Social Development made a statement on behalf of Mr. Ji Chaozhu, Under-Secretary-General. He said that the Group's endeavours towards the formulation of an internationally comparable system of standardized corporate accounting and reporting deserved the full support of the international community. Recent international developments had reinforced the case for the harmonization of corporate standards, and interest in the Group's work was at an all time high for several reasons. With the increased globalization of capital markets, the absence of sufficient information disclosure and adequate accounting standards had led to financial instability, as evidenced by the collapse of several transnational corporations, banks and insurance companies. The public was keenly aware of the need for a better regulatory environment, even in the most developed market economies. Furthermore, a crucial first step in the transition from planned to market economies was the development of an accounting system capable of measuring financial performance at the enterprise level. Lastly, developing countries were under continuous pressure from creditors and donors to increase their accountability, but they lacked the basic infrastructure (i.e., accountants and accounting standards) to do so.

81. The head of the Accounting and Information Branch of the Transnational Corporations and Management Division expressed satisfaction that the Group had seized upon important issues so that they could be addressed in a world forum. The global review of current developments in accounting ensured that developing countries and countries in transition could reflect on developments as they happened rather than after the fact. He also expressed satisfaction that the Group was at the forefront of issues such as environmental accounting and privatization. He urged the Group to transmit its conclusions on environmental accounting to the United Nations Conference on Environment and Development in order to strengthen Agenda 21.

B. Membership and attendance 1/

82. In accordance with Economic and Social Council resolution 1982/67, the Group is composed of 34 members, elected on the principle of equitable geographical distribution. One member from Asian States and two members from Latin American and Caribbean States have still to be elected.

83. The following States members of the Group were represented at the tenth session: Brazil, Bulgaria, Chile, China, Costa Rica, Cyprus, France, Gabon, Germany, Hungary, India, Italy, Jordan, Malawi, Mexico, Morocco, Netherlands, Nigeria, Pakistan, Russian Federation, Spain, Swaziland, Sweden, Switzerland, Thailand, Turkey and the United Kingdom of Great Britain and Northern Ireland. The following States members were not represented: Eygpt, Kenya, Mauritius and Sudan.

84. The following States Members of the United Nations were represented by observers: Canada, Czechoslovakia, Poland, Romania and the United States of America.

85. The World Bank and the International Monetary Fund were represented.

86. The Commission of the European Communities was represented by an observer.

87. The following non-governmental organizations in consultative status with the Economic and Social Council were represented by observers:

Category I: International Chamber of Commerce
International Confederation of Free Trade Unions

Roster: Arab Society of Certified Accountants
International Assets Valuation Standards Committee

C. Election of officers

88. At its 1st meeting, on 5 March 1992, the Group elected the following officers:

Chairman: István Friedrich (Hungary)

Vice-Chairmen: Akhilesh Chandra Tiwari (India)
Abdelaziz Talbi (Morocco)
Peter Sandén (Sweden)

Rapporteur: L. Nelson Carvalho (Brazil)

D. Agenda and organization of work

89. At the 1st meeting, on 5 March, the Group adopted the following provisional agenda, as contained in document E/C.10/AC.3/1992/1:

1. Election of officers.

2. Adoption of the agenda and other organizational matters.

3. Programme of work of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting.

4. Provisional agendas for the eleventh and twelfth sessions of the Group.

5. Adoption of the report of the Group on its tenth session.

At the same meeting, the Group approved its organization of work as set out in document E/C.10/AC.3/1992/L.2.

E. Documentation

90. The documents before the Group at its tenth session are listed in the annex to this report.

Notes

1/ With approval of the Group, the following organizations attended the session: International Accounting Standards Committee, International Federation of Accountants and Fédération internationale des experts-comptables francophones.

Annex I

DOCUMENTS BEFORE THE GROUP AT ITS TENTH SESSION

Document symbol	Agenda item	Title or description
E/C.10/AC.3/1992/1	2	Provisional agenda
E/C.10/AC.3/1992/2	3	Review of important current developments at the global level in the field of accounting and reporting by transnational corporations: report of the Secretary-General
E/C.10/AC.3/1992/3	3	Environmental disclosures: international survey of corporate reporting practices: report of the Secretary-General
E/C.10/AC.3/1992/4	3	Review of important current developments at the national level in the field of accounting and reporting by transnational corporations: report of the Secretary-General
E/C.10/AC.3/1992/5	3	Identification of accounting problems arising during privatization and their solution: report of the Secretary-General
E/C.10/AC.3/1992/5/Add.1	3	Accounting problems arising during privatization in Czechoslovakia: report of the Secretary-General
E/C.10/AC.3/1992/5/Add.2	3	Accounting problems arising during privatization in France: report of the Secretary-General
E/C.10/AC.3/1992/5/Add.3	3	Accounting problems arising during privatization in Germany: report of the Secretary-General
E/C.10/AC.3/1992/5/Add.4	3	Accounting problems arising during privatization in Hungary: report of the Secretary-General
E/C.10/AC.3/1992/5/Add.5	3	Accounting problems arising during privatization in Mexico: report of the Secretary-General

Document symbol	Agenda item	Title or description
E/C.10/AC.3/1992/5/Add.6	3	Accounting problems arising during privatization in Poland: report of the Secretary-General
E/C.10/AC.3/1992/5/Add.7	3	Accounting problems arising during privatization in the United Kingdom of Great Britain and Northern Ireland: report of the Secretary-General
E/C.10/AC.3/1992/6	3	International Conference on Accountancy Development in Francophone Africa: report of the Secretary-General
E/C.10/AC.3/1992/7	3	Review of accountancy education and training programmes in Central and Eastern Europe: report of the Secretary-General
E/C.10/AC.3/1992/L.1	2	Status of documentation for the session: note by the Secretariat
E/C.10/AC.3/1992/L.2	2	Organization of the work of the session: note by the Secretariat
E/C.10/AC.3/1992/L.3 and Add.1-5	5	Draft report
E/C.10/AC.3/1992/L.4	4	Draft provisional agenda for the eleventh and twelfth session of the Working Group: note by the Secretariat

Annex II

LETTER FROM THE CHAIRMAN OF THE INTERGOVERNMENTAL WORKING GROUP OF EXPERTS ON INTERNATIONAL STANDARDS OF ACCOUNTING AND REPORTING ON ITS TENTH SESSION TO THE SECRETARY-GENERAL OF THE UNITED NATIONS CONFERENCE ON ENVIRONMENT AND DEVELOPMENT

12 March 1992

Dear Mr. Strong,

As Chairman of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting at its tenth session, I was assigned the duty to transmit to you, on behalf of the Group, its conclusions on corporate environmental accounting and reporting. The Group, which reports to the Economic and Social Council, is currently composed of 31 member countries, of which 19 are developing countries. The experts who represent their Governments are regulators, auditor-generals, or practising accountants. For the past three years the Group has undertaken an extensive analysis of corporate accounting and reporting relating to environment disclosures.

In its latest study of 222 transnational corporations (which is enclosed), the Group found a high awareness of environmental issues. Of the transnational corporations surveyed, 89 per cent provided some information regarding their impact on the environment. However, despite the high awareness, much of this information is qualitative or descriptive, and there is no consistent pattern of disclosure. One of the main problems is that the environmental results achieved are not related to expenditures or to environmental targets.

The Group requests that its conclusions be considered for inclusion in Agenda 21 so that they may be brought to the attention of Governments and other interested parties. In particular, the Group believes that its work is relevant to chapter 7 of Agenda 21: Integration of environment and development in decision-making. Since chapter 7 deals with national income accounting, special subtopics on corporate environmental accounting should be considered for inclusion. The Group is prepared to furnish you with its reports on the subject. The Group believes that technical assistance might be necessary to assist national standard-setters to implement guidelines in the area.

The Group is of the opinion that its conclusions, if followed, would produce consistent and comparable information in the financial statements. Disclosure of such information is likely to have a positive impact on corporate environmental policies and programmes. Experience has shown, for example, that the publication of data on toxic emissions has had a more powerful effect on reducing pollution than 20 years of regulation.

I set out the Group's conclusions on the following pages.

Thank you for your attention and cooperation. I would appreciate your response to the Group's initiative so that I may communicate it to the Commission on Transnational Corporations and the members of the Group.

Sincerely yours,

Dr. Istvan Friedrich
Chairman
Tenth session of the
Intergovernmental Working Group
of Experts on International
Standards of Accounting and Reporting

The conclusions of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting regarding accounting for environmental protection measures, for consideration by Governments and interested parties, are as follows:

1. In order to deal with relevant environmental issues, the following items could be considered by a board of directors in its report or in management discussions:

(a) Type of environmental issues that are pertinent to the enterprise and its industry;

(b) Formal policies and programmes that have been adopted by the enterprise with respect to environmental protection measures;

(c) In cases where no policies or programmes exist with respect to environmental protection measures, that fact could be stated;

(d) Improvements that have been made in key areas since the introduction of the environmental policy, or over the past five years, whichever is shorter;

(e) Environmental emission targets that the enterprise has set for itself, and how the enterprise is performing relative to those targets;

(f) The extent to which environmental protection measures have been undertaken due to governmental legislation and the extent to which governmental requirements (for example, a timetable for the reduction of emissions) are being achieved;

(g) Any material proceedings under environmental law. Management should disclose a known and potentially significant environmental problem unless it can objectively conclude that the problem is not likely to occur or, if it does, that the effect is not likely to be material;

(h) The financial or operational effect of environmental protection measures on the capital expenditures and earnings of the enterprise for the current period and any specific impact on future periods;

(i) When material, the actual amount charged to operations in the current period, together with a description of the environmental measures to which they relate. This amount might be subdivided into the following general ledger accounts:

(i) Liquid effluent treatment;

(ii) Waste gas and air treatment;

(iii) Solid waste treatment;

(iv) Analysis, control and compliance;

(v) Remediation;

(vi) Recycling;

(vii) Other (for example, accidents or safety);

(j) In cases where it is not possible to segregate the amount that relates to environmental protection measures, that fact could be stated;

(k) When material, the actual amount capitalized during the current period, the accumulated amount capitalized to date, and the period for amortizing, or writing off, such amounts, together with a description of the environmental measures to which they relate. This amount might be subdivided into the categories listed in (i);

(l) In cases where it is not possible to segregate the amount that relates to environmental measures, this fact could be stated.

2. Since accounting policies are normally described in the notes to financial statements, the following environment-related accounting policy notes could be included therein:

(a) Recording liabilities and provisions;

(b) Setting up catastrophe reserves (through appropriations of retained earnings);

(c) Disclosure of contingent liabilities.

3. Since contingent liabilities are normally disclosed, if material, in the notes to financial statements, the following environment-related items could be included therein:

(a) Liabilities, provisions and reserves that have been set for the current period, and amounts accumulated to date;

(b) Contingent liabilities, with an estimate of the amount involved, unless the event is not likely to occur. The possible loss could be quantified to the extent reasonably practicable. If the possible loss cannot be reasonably calculated, a description of the contingent liability could continue to be furnished and the reason that an estimate of the amount of the loss cannot be made could be given. Completion of a feasibility study of remediation costs may be normally considered as the earliest date at which a reasonable estimate of the liability is possible.